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A quick reference aid on U.S. foreign relations
Not a comprehensive policy statement
Bureau of Public Affairs • Department of State

US-Japan Relations June 1989

Background: Japan is our most important ally in East Asia, our second largest trading partner, a major creditor, and our foremost economic and technological competitor. Our security relationship is the cornerstone of Japan's foreign policy and the US position in Asia.

Japan receives about 11% of US exports, a larger share than that of any country except Canada, and we buy roughly one-third of Japan's exports. Our combined gross national product (GNP) totals about one-third of the world's GNP. The US and Japan share largely compatible global and regional interests and agree on the need to pursue multilateral and bilateral efforts to create a more open trading system. Our President and Japan's Prime Minister, our Secretary of State and the Japanese Foreign Minister, and subcabinet level officials meet frequently to discuss bilateral and global issues.

Security relations: The 1960 Treaty of Mutual Cooperation and Security underpins overall US-Japan relations and has been a major factor in maintaining peace and stability in East Asia. Japan hosts 55,000 US troops and is a home port for the US 7th Fleet, which includes the only aircraft carrier battle group based overseas. Japan contributes more than $2.5 billion to support US forces in Japan, which, in addition to defending Japan, serve our regional strategic interests. Although Japan's constitution and government policy preclude an assertive military role in international relations, Japan has undertaken to defend its sealanes within 1,000 nautical miles, providing a credible deterrent to the Soviet Union and thus allowing greater flexibility in deploying US forces throughout Asia and other regions. Japan's defense budget, based on the NATO formula which includes veterans costs, is the third largest in the world after those of the USSR and US.

Economic relations: US exports to Japan increased from $23 billion in 1985 to nearly $38 billion in 1988, making Japan our second largest market. The US bilateral trade deficit with Japan dropped to $55 billion in 1988, the first decline in 7 years. Japan is our largest agricultural customer and our third largest foreign investor, while the US is Japan's largest export market and largest foreign investor. Japan's current account surplus declined by $7 billion to $80 billion in 1988, and a similar decline is expected this year. The yen rose 11% against the dollar from 1987 to 1988 with an average annual exchange rate of 128 yen to the dollar. Much of Japan's $130 billion net overseas capital flows came to the US in 1988, while direct investment by the US and Japan in each other's economies totaled $48 billion. On May 25, 1989, the Administration identified Japan as a

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priority country for negotiations to achieve trade liberalization under the "Super 301" provisions of the 1988 Trade Act. Three priority practices were identified for investigation under the "response to unfair international trade practices" title of the act. They are: exclusionary procurement practices in the satellite and supercomputer sectors and technical barriers to trade in the forest products sector. These practices do not represent all of the barriers to US exporters, but they are among the most important. Japan recognizes that it must do more to open its markets, promote domestic demand growth, and make structural adjustments.

Relations with other countries: After its relations with the US, Japan places primary importance on relations with its Asian neighbors. Ties between Beijing and Tokyo have developed rapidly since 1978, and Japan has been the leading donor of economic aid to China. Sino-Japanese ties, however, have been strained by the recent turmoil in China. Japan maintains economic, but not diplomatic, relations with Taiwan. Ties with the Republic of Korea have improved since an exchange of visits in the mid-1980s by the Japanese Prime Minister and Korean President. Japan maintains limited economic and commercial ties with North Korea, but its overtures to improve relations with Pyongyang have yet to produce results. Japan has long-term economic interests in the ASEAN (Association of Southeast Asian Nations) region and the Persian Gulf, which supplies most of its oil. Relations with the USSR remain cool because of continued Soviet occupation of four Japanese islands, as well as a perceived threat from the Soviet military buildup in Asia over the past decade. Nevertheless, there have been an increasing number of official contacts since Gorbachev took power, including some at the foreign ministerial level.

Foreign assistance: Japan is now the largest donor of development assistance in Asia and is likely to become the largest in the world by 1990 when its global aid flows surpass those of the US. It is a major donor to areas of particular importance to the US, including the Middle East, the Philippines, Latin America, and the Caribbean. Subcabinet level consultations are held regularly to coordinate our foreign assistance programs, and the US supports Japan's efforts to open its markets to developing countries' products.

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